H8103

ASSISTED COOPERATIVE HOUSING-A RESEARCH

Design 3580

Sharon J. Gustafson

March, 1981

OUTLINE

I. INTRODUCTION

II. CONSUMER COOPERATIVES

A. Definition

B. History

C. Scope

III. HOUSING COOPERATIVES

A. History

B. Legal Structure

C. Financial Sources

1. Government programs

D. Advantages

E. Disadvantages

IV. PROBLEMS DEFINED

A. Lack of Enthusiasm

B. Development by Non-Profit Organizations

1. Criticism of non-profit groups

2. Criticism of HUD

C. Advantages to Residents

D. Equity Accrual

V. ESSENTIAL CRITERION

A. Development Team

B. Management Plan and Agency

VI. DOCUMENTATION

VII. CONCLUSION

VIII. LITERATURE SEARCH, BIBLIOGRAPHY, RESOURCE PERSONS.

I. INTRODUCTION

Consistently, Congress has established goals to provide decent housing for <u>all</u> Americans beginning with the 1949 Housing Act that provided for the establishment of a goal to build 810,000 publicly owned, subsidized housing units (Starr, 1977); and continued with the passage of the 1968 Housing Act that established the goal of providing 600,000 assisted units yearly for low and moderate income families (Weaver, 1980). Consistently, Congress has failed to meet those goals. "In contrast to its truly amazing record in housing construction for the upper half of America's income groups, the Nation has made an inexcusable inadequate record in building or upgrading housing for the poor to provide them with decent, standard housing at rents and prices they can afford." (Building the American City).

Today, there is an appalling shortage of low income housing units; the housing supply is less than half the housing demand. In the last 45 years subsidized housing has produced four million units but the number has been declining yearly from a high of Section 8 and public housing program reservations of 517,000 units in 1976, to 250,000 units in 1980; less still are planned for 1981. (Brooke, 1980)

"Homeownership is the single, most highly valued housing goal among Americans." (Section 510, Executive Summary, 1980) Eighty-five percent of the Americans questioned expressed the desire to own their home. Homeownership has long been a norm, a standard and a goal in American society; single family homeownership has always been a part of the American dream primarily because it satisfies the norms of homeownership, detached structure type, conventional structure type and private outside space. (Tremblay, et all, 1981) However, interest rates, building costs and land costs have risen to unprecendented heights making the American dream for most families, an impossible dream. The February, 1981 national average price of a single family home had risen eleven percent to $75,200.00. (Mpls. Tribune, 2-7-81)

Studies indicate that if Americans cannot purchase a single family home they will select an alternative that satisfies as many norms as possible. (Tremblay, et all, 1981) Recent trends indicate that when norms must be compromised to obtain housing, structure norms are compromised first; the homeownership norm is obtained but with the purchase of housing in the structure form of mobile homes, townhouses or apartments sold on the ownership basis of fee simple, condominium or cooperative. (Wedin-Nygren, 1979) Two thirds of the households in this nation already own their home; however within the central cities the rate drops to fifty percent. Among lower income urban dwellers, the home ownership rate drops dramatically. (510)

Increasing homeownership opportunities for low/moderate income families within urban areas has received stimulus from the Federal government recently (510 Demonstration program, Co-op Bank,) due in part to the diminishing supply of rental housing, disinvestment, gentrification of urban areas, increased emphasis on neighborhood preservation and by the recognition of the individuals desire to control personal shelter. (Stokes, 1978) "A family with its own home has roots that may prevent the erosion of its community." (Starr, 1977)

On an ever-increasing basis, proposals for assisted cooperative developments have made their way to the desks of decision makers at the local office of the Department of Housing and Urban Development. The proposals are looked upon with puzzlement, discouragement, questioning, sometimes enthusiasm, often criticism. Questions are asked, proposals pondered and often rejected.

In this period of dire housing need, cooperative housing as a form of home ownership for low/moderate income familes, is a housing alternative that deserves to be considered. This paper attempts to articulate the problems associated with the development of assisted cooperatives:

1) Lack of knowledge of the cooperative concept
2) Advantages to the residents in Section 8 assisted cooperatives.
3) Do the potential residents want this form of tenure-or do the developing sponsors?
4) Is it advantageous to the residents or worth their time and energy commitment since they receive little equity accrual?

It looks at the reservations that HUD personnal have concerning housing cooperatives and at the reservations the sponsoring organizations have concerning HUD policy. The perspective and opinions of persons professionally involved in housing cooperatives was researched, and finally, twelve assisted cooperatives were questioned and studied to examine these issues and related questions.

CONSUMER COOPERATIVES

Cooperative businesses criss-cross the nation rendering services that are as various and diverse as bringing babies into the world, burying people, building homes, servicing autos, providing electricity for rural areas, running supermarkets, and grinding seeds. Cooperatives establish credit unions, create insurance companies and form credit institutions- and all are organized to provide high quality services and goods at lower costs to the consumer.

A cooperative enterprise is a business whose purpose is to provide its customers with goods and services which they need at the lowest practical net cost and in the quality and form the customers-its owners desire. Cooperatives are consumer owned, customer owned businesses that belong lock, stock and barrel to the very same people who use their services. They gear all their production and distribution of goods and services to what their owners/customers need with little return on the invested capital.

"A cooperative then, is a group of people faced with a common need who decide that the best or only way to meet that need is by organizing a new business to supply it directly to themselves. This they do by voluntarily joining together to pool their capital investments and thus to own, control and to patronize their own investment." (Voorhis, 1975)

Working together for mutual benefit is not a new concept; the rugged individualists of the pioneer era depended upon one another to build their houses and barns, to move across the country together and to protect each other from the common dangers of the frontier. Historically, one of the first organized cooperative ventures in the United States was Benjamin Franklins' mutual fire insurance company, formed in 1752 in Philadelphia. Each member was required to furnish "six leather buckets and two stout linen bags." In 1804 the Connecticut dairy farmers formed the first milk marketing cooperative. The Mormons in Utah and Grangers in the Midwest actively promoted and organized cooperative businesses.

The cooperative movement as we know it today was begun in the mid 1800's by a group of textile workers in Rochdale, England. Discouraged by the high prices charged them for such staples as candles, flour and clothing, twenty eight people decided to pool their resources, buy goods in quantity and open their own store. Amidst jeering and shouting, the Rochdale Pioneers successfully instigated a marketing concept that involved the consumer in all phases of the buy-sell process. The Rochdale Society is well known for identifying a widely accepted formula that defines and governs the operation of cooperatives throughout the world:

1) Open membership; Membership isvoluntary and open to all persons who are willing to accept the responsibilities of membership irregardless of class, creed, color or conviction.
2) Democratic control; Voting is on the basis of one member, one vote, regardless of the number of shares held.
3) Limited return on invested capital; some cooperatives require an initial payment for a share of stock to qualify for membership; others do not have stock.
4) Distribution of all net savings; savings can be reinvested in cooperatives, distributed among members in proportion to their purchases or a combination of both.

The International Cooperative in 1966 revised the principals to include:

5) Provisions should be made by all cooperative societies for the education of their members, officers and employees and the general public in the principals and techniques of cooperatives. People must learn how to cooperate; how to work together.
6) All cooperative organizations should work with other cooperatives in every practical way to best serve the interest of their members and

of the communities at local, national and international levels. (Co-op, 1980)

Although the principals that define cooperative ownership are universal, they have been widely interpreted by different cooperatives and widely adapted to meet their various needs. Many cooperative businesses adhere strictly to the principals; others are so loosely organized in the cooperative structure that to call them cooperatives is stretching the imagination.

The Midwest area of the United States has traditionally been involved in the organization of cooperative businesses. The first rural electric cooperative was organized in 1914 in Granite Falls, Minnesota. To obtain electric power lines at nominal cost, the farmers organized and pledged to pay back the loan from the Rural Electric Administration that would enable the farmers to acquire electric service. This association and others that followed cleared the way for electrification of rural areas throughout the country.

Farmers in Cottonwood, Minnesota, in 1921 got together and formed a cooperative to distribute oil products; by 1926, the first regional wholesale oil cooperative, Midland Cooperatives, was organized. Today the company, headquartered in Minneapolis, is listed among the nations 500 largest companies. Farmers Union Central Exchange (Cenex) and Land O' Lakes, two other Midwest cooperatives are also numbered among the nations largest.

Self help enterprises have continued to be important, today there are more than 50 million members of various cooperatives; however, the impact is slight; cooperative businesses number only a percentage of the total.

III. HOUSING COOPERATIVES

Although the earliest U.S. housing cooperatives were organized in New York City in the 1800's, this form of ownership has been and is slow to gain popularity.

The first new construction of cooperative housing got its start in 1926 when members of the Amalgamated Clothing Workers Union decided that if they capitalized the rents they were paying for shabby apartments, build their own homes, they would save money, have far better homes-and home ownership.

Abraham E. Kazan became the manager of the Amalgamated Housing Corporation and led the efforts to build an apartment building on the edge of Van Corlandt Park. The project was a tremendous success; it not only provided good housing at reduced cost, but also created a cohesive neighborhood in the midst of New York City. Fifty years later, 75 per cent of the families now living in the Van Corlandt Park homes are either the same families or direct descendants of the original owners. There exists in these homes and within similar groups who followed soon after a spirit of community, pride in ownership and an unbelievably low incidence of crime or delinquency.

During the depression, personal and corporate bankruptcies slowed the development of all housing, not until the years following World War II did the tempo again become more rapid, probably in response to the acute housing shortage in the nation. Strong labor and credit unions sponsored and financed cooperative developments; New York City, Illinois, Florida, Northern California and Washington D.C. have seen the most active development. It is estimated that there are over 500,000 cooperative units in the United States, which is less than one percent of the total housing stock.

A housing cooperative is a unique form of home ownership that serves as an alternative to owning one's home and renting a space from someone else. It is a not for profit business mutually owned and operated by its members; the occupant is a resident, member and co-owner. The residents become partners in the non-profit corporation by purchasing a share (membership certificate) in the stock; this entitles them to the exclusive occupancy (proprietory lease) of a particular dwelling unit; however, the share entitles them to use, not own, the space they are occupying for the shareholders own a share of the entire project, not just a particular dwelling unit as in condominium ownership. Similar to condominium ownership, the common spaces, the land and services are jointly owned by all members.

Too, a cooperative differs from single family ownership and condominium ownership in that the corporation holds title to the property and is responsible for the mortgage, taxes and operation of the cooperative. There is one mortgage only in a cooperative and the individual members pay their proportionate share of that mortgage; the individual member is not personally liable for the mortgage.

The shared nature of ownership makes the members dependent on those with whom they share yet gives them more control over their environment than does most kinds of housing situations.

The shares in a housing cooperative rarely have the same selling price, however each member family has an equal right to vote-one vote per share, irregardless of price. It is this right to participate as a voting member that conveys the special responsibilities of a member in a housing cooperative.

For example, if a cooperative member defaults on the monthly payments, not only affect themselves, but all of the other cooperative members as well. To control the situation, the cooperative makes rules regarding late monthly payments that are binding for themselves as well as other members. Zimmer (1978) suggests that a special advantage of cooperative housing is that members exert a great deal of community control by the writing of reasonable rules to insure a pleasant, safe and decent neighborhood environment whereas a renter who has no neighborhood control and an individual homeowner has control only over his personal property.

Today in America cooperatives provide home ownership to diverse groups that range from students living in cooperative college housing to the retired folks living in centers for the elderly; from luxury units to those accommodating families receiving subsidy; from newly constructed 400 unit complexes to four unit rehabilitated structures; from townhouses to high rise apartments. Therein lies the problem; no two are alike in the financing, insurance, construction and management problems that each cooperative must face and solve before it becomes a viable organization.

In 1950 Congress enacted into law Section 213 of the Federal Housing Act that provided FHA insurance on loans to cooperative housing projects. The liberalization of requirements for cooperatives facilitated their financing; as a result, many shapes and forms of cooperatives began to spring up all over the nation. It is the various types of housing cooperatives, their advantages and disadvantages, with particular emphasis on the recent development of government assisted cooperatives, that this paper addresses.

Due to the spontaneous evolution of cooperatives, they have taken on many forms and adhere more or less to the cooperative principles in their operation. Generally, cooperatives have been organized employing three types of legal structures, the cooperative, the non-profit corporation, and the limited partnership. Briefly, the cooperative association, (Minnesota Statutes, Chapter 308) is owned by the corporation and membership is limited to its residents. There is only mortgage and no individual liability for the mortgage or for debts incurred by the corporation.

Non profit corporations (Minnesota Statutes, Chapter 317) also limit membership to residents, have one mortgage and members have no individual responsibility. A common practice under this structure is for a sponsor to obtain financing to develop the project through a special corporation which eventually gives the control to the member residents.

Limited partnerships (Minnesota Statutes, Chapter 322) are a third form of organizations used by groups whereby the operation of the partnership is controlled by one or more general partners; the limited partners (the investors) have no role in decision making. The residents of the cooperative rent their units, but control the management by this organizational device until such time the tax shelters have ceased to benefit the investors at which time the cooperative is usually sold to the residents. A silent corporate general partner and an active non-profit general partner composed of residents allows management decisions made by residents. (GMMHC Study, 1975)

The method of equity distribution or absence of distribution further distinguishes types of cooperatives; the issues raised by equity disbursal will be addressed throughout the paper, but for purposes of clarity the differing methods will be defined at this point:

1) Par Value Resale - the departing member receives only the initial down-payment and no more. The unit is then offered to the new occupant at the original price. The value (equity increase) is distributed in low carrying charges and low initial payments for future members as well as for the current members. No interest is paid on share upon departure.

2) Market Value Resale - at the other extreme, some cooperatives (generally commercial, non subsidized cooperatives) allow the departing member to seek the highest market value he can; the units are soon removed from the price range of low/moderate income families even if the units were built initially for this income bracket.

3) Between these two extremes is a system used by all FHA financed cooperatives in one variation or another; the departing member receives his down payment, his share of equity in the project and some reimbursement of debt retirement, usually based on an increase in the Consumer Price Index or current interest rate. The original unit is thus still affordable for low/moderate income families, and yet the departing member has received some of the units added value to apply toward his next housing. (Building the American City)

Equity distribution for the residents of Section 8 cooperatives is often based upon a complicated formula whereby the subsidy is subtracted and this amount, plus the share purchase price, including interest, is returned to the member on leaving. Consideration is usually given for improvements made to the property, less depreciation. No definite policy for equity accrual has been established at this point for assisted cooperatives.

A major step in the cooperative process, the development of a new project or rehabilitation and conversion of an existing building is knowing the sources available for financing and getting funding committed to the project.

Most cooperatives have been funded, partly or completely, through Federal programs and almost all require FHA mortgage insurance. The Minnesota Housing Financing Agency requires FHA mortgage insurance on their cooperative projects (one, as of this writing). FHA mortgage insurance minimizes the lenders risk and supposedly then will make mortgage money more readily available. The actual loan comes from other sources such as Savings and Loans, banks, credit unions, and GNMA; for a fee that is approximately five percent of the mortgage costs, FHA will guarantee the mortgage to the lender. If default should occur, FHA pays off the principle and assumes the mortgage.

FHA is extremely concerned about a projects financial viability; it provides insurance only for the amount that HUD believes they can recover if default occurs and the property must be sold.

That amount is determined by the debt service permitted given the rents for comparable rental housing in the area; if the comparable rent is significantly lower than the market rent required for the proposed project, then FHA normally would offer mortgage insurance for an amount lower than project cost. (GNMMC Study, 1975) Most FHA proposals have encountered this problem because of the rapid inflation of new construction costs.

The basic principles are similar for all FHA mortgage insurance programs; the differences among the programs lies in cost per unit limits which determine, generally, the income levels served, maximum mortgage amounts, eligible tenants, eligible mortgages, builders and sponsors profit and risk allowance, (BSPRA) availability. (GMMNC)

The basic Federal Insurance Program 213 defines four different forms of cooperative development:

1) Management type refers to administration and control under the auspices of the cooperative; the cooperative owns and manages the project. Three important variations of management type are:

   a) Pre-sale approach may involve either development conversion of an existing project; in either case the cooperative is organized before FHA committment, before the property is acquired or before the work is done. The cooperative is the mortgager and developer sponsor during development.

   b) Investor sponsor-the project is constructed by either a for profit or non profit sponsor who after construction markets it as a cooperative, the occupants are aware of intent to cooperate before occupancy. Often developed as a dual commitment which means that the project would become a rental unit if interest was not there, or it did not succeed as a cooperative.

   c) Conversion approach-tenant initiated conversion of rental unit to cooperative ownership. Property originally purchased with no intent to form as cooperative is turned over to tenants by owner.

   d) Non-profit sponsor approach permits a non-profit group to acquire and rehabilitate (if necessary) a rental project to convert to a cooperative within two years of completion of construction. (HUD Handbook; GMMHC)

2) Sales type-rarely used; cooperatively developed units sold individually.

3) Mobile Home Park Cooperatives.

4) Supplemental Loans are available to management type cooperatives for repairs and improvements and for financing the resale of shares when there has been an increase in equity.

Brief descriptions of useful FHA programs that apply to cooperative housing follows:

Section 213

Initiated under the Housing Act of 1950, insures market interest rate mortgages on new construction, rehabilitation, acquisition, repair of projects, or resale of individual memberships. Mortgage loan to value ratio is 97% and financing term is up to 40 years; highly successful, individualized program that was designed to reach families who otherwise could not afford home ownership.

Section 221

221(d)(3) formerly authorized below market interest rate mortgages, now insures market interest rate mortgages on new or rehabilitated structures. Insures 100% project cost (FHA estimates). (d)(4) insures 90% of FHA estimated cost.

Section 8 Housing Assistance Payments Program:

Permits eligible low income families to pay no more than 25% of their income for housing. Applies to existing, new or rehabilitated housing stock and rents/mortgage fees must fall within HUD established Fair Market Rents. "Set aside" assistance has helped cooperatives financed under Section 236 and Section 221(d)(3) BMIR programs for lower income residents.

Section 105

Allows use of Community Development Block Grant (CDBG) funds for economic development activities; for example, to financially assist non-profit organizations in the conversion, purchase or rehabilitation of rental property to a cooperative.

Section 202/8

A direct loan program which lends funds at three percent interest rates to finance rental or cooperative housing for elderly or handicapped persons having non-profit sponsorship. Section 8 assistance is included.

Section 206

Allows use of additional 236 operating subsidy payments to cover increases in property tax and utility charges in Section 236 developments.

Section 246

Provides for the sale of rental properties built by the Federal Government to the residents as cooperatives with 100 percent government financing. The price for each property is to be set to enable support for the property at the present rents the tenants are paying.

GNMA Tandem Plan

Government National Mortgage Association (GNMA) purchases conventional and Federally insured mortgages at below market interest rates and then resells the mortgages at current market prices with the government absorbing the loss as a subsidy. Done to stimulate housing production.

Section 515

Farmers Home Administration lends funds for the production of rural housing cooperatives. Locally, Minnesota Housing Finance Agency is the only public agency in Minnesota to make loans to cooperative project sponsors; however, MHFA requires that FHA insures the mortgage as well. MHFA has as a priority the development of economically integrated housing and housing that uses some Section 8 funds.

Funding from tax exempt revenue bonds has been used to fund city cooperatives; CDB money has been used to provide seed money as well. There are various funding mechanisms available to assist in the development of cooperatives; in this area Common Space, a consulting organization was established to assist non-profit organizations through the maze of financing mechanisms.

Because funding programs to all levels of government are in a state of flux, this list is by no means complete.

The National Consumer Cooperative Bank, opened in March, 1980, is an important funding mechanism for all consumer cooperatives; the Bank will commit approximately thirty percent of its available funding (300 million dollars from theTreasury that will allow the borrowing of $3 billion privately) to housing cooperatives. (Stanfield, 1980; Waterhouse, 1981)

Many areas in the country are responding to the cooperative concept meeting the homeownership needs and norms of low and moderate income families.

A notable example is in Fairfax County, Virginia where the HRA has, in their Housing Assistance Plan, specified that fifty percent of the assisted housing is to be developed as homeownership cooperatives. They felt the homeownership aspect is more acceptable to the residents of the complex as well as to the neighboring community. The HRA, in fact, has a development staff to propose and assist in the development of co-operatives.

The HRA is in the process of buying Greenwood Apartments and with substantial rehabilitation develop into a 130 unit cooperative; the unit is bought with public housing monies and after rehabilitation and application to HUD, sell to tenants. (Modeled after Forest Hills in New York City and a development in Bridgeport, Connecticut, using public housing monies.)

The Fairfax County HRA joined with a private sponsor to do a limited partnership, 37 units, 100% Section 8 cooperative which they leased to the Cooperative Corporation who manages the complex; after 16 years, the Corporation has the right of first refusal. The HRA is planning also to develop 34 detached, single family housing units and to lease them with intent to sell as cooperatives.

The Arlington (Virginia) Housing Corporation is a non-profit organization formed when CDBG monies became available; Arlington County has no housing authority and an organization was needed to develop housing for low and moderate income families. The Arlington Housing Corporation has made cooperative development their priority over rental because they want the equity put into the project from the use of CDBG funds to benefit the people and not a for profit developer and because they feel the advantages of self determination is extremely important.

Thus far, Arlington Housing Corporation has been involved in:

Arlington View Terrace - 77 units garden apartments; Leasing building with option to buy and bought to prevent displacement from condominium conversion: Option bought with CDBG monies; pre-sale cooperative with 100% Section 8 Commitment.

Summer Hill - 14 unit new construction; FHA Insured 221 (d) (3) townhouse, Section 8, under construction

Dual commitment, but marketing as cooperative. (Fredericks, 1981)

Montgomery County (Virginia) Housing Opportunities Association has adopted a similar attitude on their newly constructed and HUD foreclosed properties. (Ballard, 1981)

Third East Hills Park in Pittsburgh was formerly a low income apartment unit developed under Section 236; the 140 townhouse unit had fallen into disrepair and had become delinquent in paying bills and was headed for default when it was converted to a cooperative in 1975. The project received 100% Section 8 set asides; is 100% black and today is a model cooperative in excellent financial condition. There is a strong board, infectious leadership and everyone works to keep the complex in repair. (Wilcox, 1981; Business Week, 1980)

Racine Courts in Chicago is a cooperative consisting of 121 units of public housing converted to low-income cooperatives. The social and environmental problems are enormous primarily because it is located in a declining neighborhood, but because the residents can take control of the community problems and internal dissent can be resolved, there are no vacancies, no delinquencies, and it has been viable for 13 years. (Wilcox, 1981)

The conversion of public housing units to cooperatives is a proposal being reviewed in several cities. The Public Housing Agency of St. Paul, is considering converting McDonough Public HS, complex to a cooperative.

The list goes on, North Philadelphia developed a cooperative instead of a for profit rental unit because the officials felt the social benefits of a cooperative (control, better maintenance, sense of community) would improve and maintain the neighborhood despite the fact that a substantial down payment was required of the cooperators. (Ballard, 1981)

The Northgate Cooperative in Sturgis, South Dakota, Cedar Ridge Townhouses and Lacata Cooperatives in Rapid City, South Dakota generally serve very low income families and despite problems resulting from social and economic needs of the population are successful cooperatives. (Mortimir, 1981)

The San Francisco Redevelopment Agency is enthusiastic about cooperatives; the policy of the HRA is to develop housing that has a social and economic integration. Their success with St. Francis Square (300 unit, 221 (d) (3) BMIR) cooperative and four Section 236 cooperatives totaling 700 units encouraged the San Francisco HRA to convert a 200 unit complex and develop 300 Section 8 cooperative units. (Catin, 1981)

The Massachusetts Housing Finance Agency has provided the mortgage money for three cooperative developments, Woodridge in North Andover, North Ridge in Beverly and Lexington Homes in Lexington and recognized the importance of cooperative housing to the extent that the agency has devised a cooperative development plan.

Housing cooperatives offer the advantages of lower housing cost, resident control of the environment, development of a sense of belonging in the neighborhood, personal pride, independence, and some equity build-up. Like homeowners, the cooperative members have the security of long tenure as long as they pay the monthly charges on time and abide by the terms of the agreements they have signed.

The lower housing costs result because the owners profits are eliminated and the monthly housing costs are limited to actual operating expenses and financing charges. There is ordinarily a two percent charge for vacancy loss reserve in a cooperative, which is less than the allocation in rental properties. In addition, cooperators do not have to pay costs of speculative profits or turnovers in ownership. Maintenance costs in a cooperative are usually less. The cooperators frequently handle small repairs and redecorating on a do-it-yourself basis. (Wilcox, 1979)

Housing cooperatives offer another housing choice often denied lower income families; it offers them protection from rent increases because the monthly payment is fixed over the life of the mortgage, the only variables being taxes and energy charges. The cooperator by virtue of his participation, has control over the financial expenditures of the corporation.

Members receive tax deductions for their share of property tax and mortgage interest, however, this advantage is often not applicable if the residents income is not high enough to warrant taking advantage of the long form of income tax return. In addition, cooperators may apply for homestead credit in many states.

Cooperative living is a way of maintaining communities that is vital to the preservation of our cities. As changing life styles, increased energy costs, increased housing costs and smaller families make the inner city more attractive to middle and upper income families, the development of cooperative housing could prevent dislocation the existing residents that occurs when a neighborhood undergoes gentrification. Housing co-operatives could provide a means for the lower income families to continue to afford city living and still maintain control over their communities. The ownership aspect provides them with the security of controlling their environment; landlords cannot evict them or turn their home into a condominium and sell to the highest bidder and rent controls will not affect them. (Dockson, 1980)

There is a high rate of mobility among low income families, much of it involuntary caused by urban renewal, code enforcement and court ordered evictions. Constructive evictions are more common and are caused by rent increases, landlord "persuasion" and tenant disappearance for nonpayment of rent. Whatever the reason, the high mobility rate creates a feeling of rootlessness and works against the creation of a sense of community that is needed in the revitalization of an area. (Struyk, 1978)

Working together produces a feeling of belonging, fosters the desire to help one another and helps to create a sense of community which is desperately needed in a larger, impersonal city; housing cooperatives create neighborhoods by people working together. (Building the American City, 1968)

Members of cooperatives exert a great deal of <u>community control</u> by their writing of reasonable rules to insure a pleasant, safe and decent neighborhood environment. An individual homeowner cannot control beyond his personal property, a renter exerts no community control. (Zimmer, 1978)

Many of the cooperatives have aided the process of integration, often the incentive toward integration is as strong as the incentive for co-operative living. Areas like Hyde Park in Chicago, have experienced an upsurge of cooperative conversion; integrated multi-family apartments are abundant there. (Fuerst, 1979)

Cooperatives have a positive effect on peoples lives; they like having a say in their destiny. The all black cooperatives tell the world that all black housing developments are just as successful as integrated or all white developments. Fuerst, 1979

COMPARATIVE ADVANTAGES

~~NAHC-RV-10-1-76~~

	Cooperative -(Insured or Assisted by Federal Housing Administration)- Dept of Housing and Urban Development.)	Any Rental	Individual Ownership (including condominium apartment)
OWNERSHIP	The residents are the sole owners of the property through a non-profit corporation.	Tenants own nothing except rent receipts. On expiration of lease, tenants may be forced to vacate.	Owners acquire individual title to their dwellings.
MONTHLY COSTS	Members pay their share of actual costs, based on non-profit operation of entire community.	Landlords usually charge as much as they can get.	Each owner must make his or her purchases of whatever is needed, often at higher retail costs.
COSTS AT MOVE-IN	New members make a "cash investment" to buy their share in the cooperative corporation and also pay the first monthly charge in advance.	Usually one month's rent is paid as a security deposit, plus the first month's rent.	Purchaser must buy the property and arrange for a mortgage, and usually has expenses equal to 10% or more of the total purchase price.
OWNER'S LIABILITY	Co-op members have no personal liability on any mortgage or note.	Renters have no personal liability.	Owners are personally liable for any mortgage and note.
COMMUNITY CONTROL	The co-op resident members elect their Board of Directors, which decides all policy matters. Each member family has one vote. The Board usually sets up several committees to help run the community.	Renters usually have no voice at all in establishing and maintaining community standards.	Individual home owners have no jurisdiction over their neighbors except through the courts at their own expense. Condominium owners elect a condominium management committee to govern common areas.
SOCIAL SERVICES	The cooperative organization provides a natural community base for almost any kind of service and activity desired by its members.	Private landlords tend to minimize social services, except in larger projects in the form of recreational facilities.	Similar to rentals,

2

COMPARATIVE ADVANTAGES

	Cooperative -(Insured or Assisted by Federal Housing Administration)	Any Rental	Individual Ownership (including condominium apartment)
MAINTENANCE	Usually the cooperative's employees handle all major maintenance except for redecorating.	Maintenance policies are established by the landlord.	Each owner is responsible for all maintenance and repairs. Condominium owners are responsible for all except common areas and facilities.
TAX BENEFITS	Co-op members enjoy the usual home owner deductions for interest and taxes paid on their dwelling unit.	No tax benefits.	Same as Co-op.
MANAGEMENT	Each co-op family has one vote in election of their Board of Directors. This resident Board then hires professional management to handle business affairs.	The landlord handles management.	~~Each owner makes all decisions.~~ Condominiums are managed similar to co-ops except that owners do not have to live on the premises and this can lead to absentee-controlled management.
INCREASES IN RESALE PRICES	The value of a co-op membership may increase under a formula written into the co-op's bylaws. The member usually gets credit for approved improvements.	None.	Whether a seller realizes any gain generally depends largely on market factors beyond the seller's control.
REPLACEMENTS OF FACILITIES AND EQUIPMENT	Reserves are established to pay for replacing outmoded or unusable equipment and facilities.	The landlord decides when and if replacements are to be made.	The owner has to foot the bill for replacements. Condominium associations may establish reserves like a co-op.
LIABILITY IF VACANCIES DEVELOP	Established cooperatives have reserves for contingencies including vacancies. FHA-insured co-ops have the best record of all FHA insured programs including single-family homes.	The landlord has the responsibility.	The owner has the responsibility. Condominium owners are also liable for their share of any operating losses or deficits related to common facilities and areas.

ΓS OF MOVING OUT	If the member gives proper notice, the co-op usually supplies a replacement from the waiting list. The out-going member then is entitled to the initial cash investment plus any increases in value less what is owed to the co-op and a $50 to $100 transfer charge. If the co-op does not exercise its option, the member may have to resell the apartment.	If the resident gives proper notice the security deposit will be returned less any deductions for delinquent rent and damages.	The owner is responsible for reselling his or her own dwelling, or it can be listed with a broker and the broker's fees paid for the service.

Source: National Association of Housing Cooperatives

1828 L Street N. W., Suite 1100
Washington, D. C. 20036
Telephone (202) 872-0550

See also "Owners Not Tenants"
available through TechniCo-op, Inc. and "Cooperative Housing -- People Helping each other,"
available through TCI and NAHC.

Included among the disadvantages to living in a cooperative is having less independence than a single family home owner because corporation approval is required upon selling; equity in a cooperative is not security on loans at this point. Then, too, the Board may decide upon policy to which an individual is opposed; however, the Democratic form exists in a cooperative and majority vote rules.

If the residents in a cooperative are interested in temporary, not permanent living accommodations, the cooperative will not work. Most of the residents must be involved and willing to accept the responsibilities of voting and participating in the democratic process. Being a democracy has disadvantages in that all members must work together and to abide by majority decisions. Some dissention is inevitable. (Wilcox, 1979)

Foreclosure may take place without the individual being the cause; cooperators lose interest in the housing development if others are unable to pay their share of the monthly mortgage payment.

A major disadvantage in a cooperative is that all too often, residents view the value of their share as a security deposit that will cover damages when they move, and not as equity. (Furst, 1979) For those persons who are interested only in housing at reasonable cost and not in the ownership aspect, the training process is essential. Even so, the rental syndrome is widespread whereby the residents are accustomed to accepting landlord control, do not participate and do not do even minor repair to their housing units.

IV. PROBLEMS DEFINED

For the families who desire home ownership and control, then, a cooperative is an alternative and probably will be successful for they will work to accomplish those goals. However, the question is raised by HUD personnel whether Section 8 assisted participants have the ownership and control goals in mind, and if they do, do they have the expertise and the sophistication or even the understanding of the responsibilities involved in home ownership? (Gabler, 1980)

Roger Wilcox, President of Techni Co-op, contends that Section 8 assisted cooperatives can be divided into three categories; Section 8 set asides; i.e., Section 236 that received additional assistance; one hundred percent Section 8 that has funding committed for 20 years; and partial Section 8.

Wilcox feels that mixed market rate and assisted cooperatives should not give HUD problems because they merely provide additional assistance to low income families within a traditional cooperative framework. The leadership initially comes from non Section 8 residents until all cooperators have been schooled in leadership roles.

Many HUD personnel feel however, that problems are inherent in mixed income cooperatives and they are especially reluctant to fund them. It has been suggested that an economic mix is not desirable and will inhibit market rate families from buying into the cooperative.

Several mixed income cooperatives have proven to be successful: Rosemary Village in Silver Springs, Maryland; Nassau Gardens in Norwood, Massachusetts, Stephans Avenue in Minneapolis have all experienced misconceptions and problems arising from the income mix, but after discussion and understanding, the problems have been resolved. No cooperative share is sold without the income mix concept being explained so all residents are aware of the possibility upon purchase and occupancy; no cooperative stood vacant for this reason. Lee Catin of the San Francisco Redevelopment Authority emphasized the importance of both racial and economic integration in their cooperatives. The benefits to all income groups should be clearly defined.

The cooperatives that are one hundred percent Section 8, in Wilcox' opinion, tend to have weaker leadership, and more timid people unskilled in finances; training is needed to develop potential leadership. In addition, the financial expenditures and monthly charges must be very well planned for there is usually no cushion for unexpected expenditures; families receiving assistance may find it difficult to come up with extra money for unplanned expenses and failure is built in.

Many HUD officials feel that a pre-sale cooperative has a much better chance of success for the members know what it is they are buying into beforehand. Zimmer (1981) feels that it is important to have a group of people who want to move into a cooperative available before development. Action Housing in Pittsburgh developed Greenway Cooperative; the project was occupied so slowly that HUD foreclosed. It was then occupied as a rental project and became a successful tenant initiated cooperative.

Ms. Catin contends that HUD would feel safer guaranteeing a mortgage with a pre-sale arrangement; however in inflationary times, it is very difficult for a lower income family to produce the needed down payment for housing that will not be available for several months or even years; costs rise in the interim and often in a pre-sale arrangement there is no unit to actually see, making it all the more difficult for a family to put down several hundred dollars.

In addition to pre-sales, many HUD personnel feel that a cooperative will not be successful unless the potential cooperators themselves show the desire for owning shares in a cooperative. They want to see enthusiasm and desire from the group for whom a cooperative is proposed and not from the non-profit sponsor. The risks for the lender, they feel, would be considerably less in this situation. However, in many areas of the country, a cooperative life style is a relatively unknown life style and to have interest shown beforehand is difficult. Often, interest comes from buying a share (and indeed, getting good housing at lower cost) and then learning what it is all about; the importance of good training and education programs cannot be overemphasized. First time homeowners, in any income bracket, are not skilled in the financial, upkeep and repair responsibilities that are involved in ownership. Should it be different for low income families if the opportunity for home ownership is available?

In very low income cooperatives, indeed in housing of all types, the social issues inherent with the economic level cannot be overlooked. Providing housing is not a solution to the broader social issues of low income families; when people are unemployed, not well educated and do not possess needed skills, cooperatives probably will not succeed. The people need help beyond self help; before people can put time and energy into contributing to the success of a cooperative, they must have jobs. (Co-op, 1979) A change in living arrangements will not necessarily produce a change in life styles without the counseling, education and job opportunities needed to produce that change.

Improbable that they will not succeed, but not impossible; Racine Courts Cooperative in Chicago, formerly 121 units of public housing located in a deteriorating neighborhood which has enormous social and environmental problems is an example of success. The residents have taken control of the community and have made it into a viable living environment. (Wilcox, 1981)

Lacota Cooperatives in Rapid City, South Dakota serves very low income off reservation Sioux Indian families in a deteriorating neighborhood; although problems of apathy and non-participation exist in the cooperative as well as do the problems of lack of job skills and opportunities for many of the residents, many of the cooperators participate in the cooperative process and work hard to make the community feasible. (Mortimer, 1981) A very low income one hundred percent rent supplement cooperative in Cleveland is viable; Boulevard Village in Kansas City is a twenty-two year old low income cooperative that developed financial trouble after two years--it is still in financial trouble, but still in existence. (Wilcox, 1981) Obviously, no pat formula exists that will determine the success or failure of a cooperative; relevant factors that must be considered will be discussed however.

Neighborhood non-profit organizations fulfill a useful function in this metropolitan area by their ability to become involved with neighborhood and community groups and thus to learn the needs and desires of such groups. The non-profit organizations are able to pinpoint the locale where housing needs exist and to organize the community into demanding action; in this manner displacement caused by gentrification is often prevented. The provision of decent, affordable housing to low and moderate income families and the prevention of displacement are major goals of most neighborhood groups.

Since urban home ownership has been recognized as a stabilizing factor that prevents the deterioration of neighborhoods, and since neighborhood non-profit organizations are working within this framework, they have often proposed the building or rehabilitation of units to be sold as cooperatives to low and moderate income families. The HUD area office or MHFA is asked to provide funds or to guarantee the mortgages. Frustration abounds. Not only do the neighborhood organizations become frustrated with the documents, delays and obstructions caused by the HUD requirements, HUD also is frustrated by the neighborhood organizations seeming lack of expertise and often, their lack of capital. The credibility gap often becomes a chasm.

Many neighborhood non-profit organizations have been formed or have in their organizations, so called housing activists who are unwilling to work within the framework of HUD they often view HUD as an adversary and refuse to comply with the regulations required by the office. The financial institutions question the tenure of such organizations. Will they be in existence to help the cooperative if needed five, ten, twenty years down the road? Will the organization provide responsible leadership?

HUD and MHFA have charged that neighborhood organizations request financing from them yet have their plans and goals in place and object when they do not meet their criteria. Jenkins of MHFA suggest that the non-profit attitude is "this is what I want, but I'll put up nothing (financial), you do this and put up everything." He feels the financial risk take has to be assured in every way possible that the project is feasible.

Lee Catin of the San Francisco Housing and Redevelopment Authority (1981) suspects the "do-goodism" attitude that often movivates neighborhood groups; housing should not be tailor made to an individual or to a specific group. The number one priority should always be kept in mind--the delivery of good housing. Removing themselves from the personal level and hiring a highly competent development team will insure that goal.

A major criticism directed at non-profit organizations is the lack of expertise in their efforts to provide neighborhood housing. The enormous time commitment is underestimated; the financial and technical knowledge is underestimated and often lacking that is needed to put the housing package together and to make it a workable, viable project when completed; the legal advice needed is often not obtained which results in construction delays and unforeseen costs.

Added to the problem of lack of expertise is the fact that in many situations funding for the housing project has come from several sources (i.e., the city, state, HUD). Not only does the neighborhood organization have to respond to the demands of the community within which they are working, but also to the demands of the various agencies that are providing the needed capital. The demands are seldom the same and the different criteria and cross purposes of each organization have to be articulated and consolidated by the neighborhood organization.

The Virginia HUD area office, not unlike the Minneapolis-St. Paul area office, has had little experience with cooperatives and no success stories to point to about their advantages. The office is beginning to see the benefits of cooperatives; to enhance their credibility with the HUD office, the Arlington Housing Corporation employs a strong development team, hires a reliable managing agency and always has a member of the Arlington Housing Corporation on the cooperative boards. Thus if default looms possible, the Corporation has the authority to get competent help. (Catin, 1981)

HUD, on the other hand, is not without fault. The department has often been accused of being an organization in existance to benefit for-profit developers and contractors. HUD disregards the specific guidelines that allow homeownership opportunities for low/moderate income families and chooses instead to develop Section 8 rental units. The non-profit concept, it has been suggested, is contrary to the American way of doing business. Taking housing out of the speculative market and operating it on a limited dividend basis as most assisted cooperatives operate is a relatively new concept and may be one of the reasons HUD officials are reluctant to fund or insure cooperatives. THe idea that housing could be considered as <u>shelter</u> and not as an <u>investment</u>, it is felt, is seen as a threatening, socialistic concept by the conservative decision makers at HUD. (Cann, Locke, Dolbeare, Eden, Cooper, Warner, 1980)

HUD is accused of not seeing itself as a social agency that provides housing, but as an agency that provides money, guarantees loans and delivers x number of units without taking into consideration the neighborhood needs. For example, before a Mpls-St. Paul area official would approve a proposal for a cooperative development, the sponsoring non-profit organization issisted he visit the site and talk to cooperators in a neighboring development to learn their feelings about the site and about cooperative living. He had prejudged the site to be undesirable for family living; upon hearing the positive opinions of the residents, the official approved the initial proposal for the cooperative. (Casey, 1980)

Cooperative developments are a radical departure from HUD's previous way of doing business, and since HUD is considered not innovative, it is suggested that HUD make a new pigeonhole for cooperatives, make a concentrated effort to learn about cooperatives and develop a specific policy regarding their development. HUD officials do not see the advantages of assisted cooperatives, so there is no clear policy direction from the top concerning their development. Ms. Dolbeare suggest HUD consider a seperate track for processing non-profit cooperative development instead of trying to fit the process into the existing molds. She feels HUD should be a motivating force providing housing for the people who will be living in it rather than implementing housing as a sideline for those who are in the business to make money.

HUD personnal claim that for-profit developers can make money and develop housing at less cost than non-profits; the non-profit developers usually do not have contacts for large volume purchases, the experience or the track record that larger developers do which could explain the claimed discrepancy. For-profit developers follow the guidelines established by HUD for the development of housing, and even though they may argue them, know that the end result is predictable; others claim that HUD opens doors and makes processing easy for developers who provide housing at a profit for themselves.

Irregardless, the financial incentive is lacking for developers to build limited dividend cooperatives; Mortimer suggests that a for profit rental developer makes ten times the profit that a cooperative developer will make. Cooperatives benefit only the cooperator, and no lobbying power exists to change the situation. (Mortimer, 1981)

HUD officials claim that the processing of cooperatives is extremely time consuming, no two are alike and therefore new problems arise for each proposal. Section 8 rental units are much easier, safer and less complicated to develop so, since no financial incentives (equity accrual) exist for the resident, is there an advantage in processing cooperatives over Section 8 rentals? Indeed, many policy statements (HUD document 7420.1) and many personnal regard Section 8 cooperatives and Section 8 rentals similar, if not identical, from the consumers point of view.

The cooperatives studied in this research are limited dividend; the equity accrual is limited either to the share returned with interest pegged to the rise in the Consumer Price Index or the share plus interest plus a small percentage of the increase in equity based on the amount the cooperator actually paid. In either case, the amount to be returned will generally be less than five hundred dollars and that after one to three years of residency.

HUD personnal wonder if the amount then will be worth the time and energy investment in a cooperative? Several schools of thought prevail on the subject.

A larger equity accrual is necessary so that it serves as an incentive for the cooperator to continue living in and maintain the cooperative. Low income families should also have the opportunity to realize profit from their housing investment just as other income levels do. Receiving a larger equity gain will give them an invested stake in their housing.

Others feel that a larger equity accrual to the departing member will then demand a larger down payment from the incoming member and soon the housing will be priced out of the market for whom it was originally intended. Limited equity means controlled resale. Limiting the equity also serves as an important means of keeping the costs down.

Willcox, 1981, feels that limiting equity is not necessary for the success of a cooperative; people should not make money on a deep Federal subsidy. Also, receiving a larger equity accrual might encourage people to leave so that they might realize the benefits, and this, he feels, is counterproductive. The development of leadership is crucial in a low/moderate income cooperative and large equity accrual may tend to encourage leadership to leave.

A substantial down payment that is decidely more than a damage deposit insures a firmer commitment on the cooperators part also. A financial stake in the housing will encourage participatory membership and will act as a disincentive to walk away. Down payments totaling $700.00-1000.00 could be paid with part down (ex. $300.00) and the rest to be paid on a monthly basis over a two year period would encourage people to give notice and to care for the unit. Equity and interest gain is still available and the unit continues to be attainable for whom targeted. (Philips, Catin, Scull, Mead, 1980)

Sybil Philips, HUD director of the 510 Demonstration Program, wanted, in the New York City experiment, to use broad equity distribution as a comparative basis to determine if equity was an incentive or not. However all three demonstration projects chose similar formulae based on one-third-two thirds distribution. After three years, the departing member can receive thirty percent of the equity appreciation of his/her unit; the remaining seventy percent is returned to the cooperative corporation to enable other low income families to buy into the corporation. (1981)

Orville Freeman, Deputy Director of Property Management at the Mpls-St. Paul HUD area office devised an equity distribution plan allowing an increase in equity based on an increase in appraised market value of the share:

1. Provisions of the first mortgage include:
   a. Following the mortgage payments numbered 60, 120, 180, 240, 300, 360 the mortgagee will arrange for an appraisal of project value.

   b. Whenever project value has increased, the mortgagee will commit to a second mortgage loan equal to 75 percent of the increase in value, the amount to be known as "Available Increase in Value".

2. The cooperative will pro-rate the "Available Increase in Value" among the cooperators, based on their shares as of anniversary dates cited in 1a.

3. When a shareholder sells, s/he seeks recovery of full equity from the buyer; however, if an otherwise eligible and approvable buyer cannot manage the full equity, the cooperative will pay the difference, calling on the mortgagee for a loan draw if necessary. (A minimum buyer down payment, equal to the minimum down payment required of original cooperators would be required.)

4. Equity paid to selling shareholder by the cooperative represents an additional investment in the enterprise by all cooperators. As of closing date of the sale such amounts will be prorated to the cooperators equity accounts based on their shares as of that date.

Under this plan, options available could include:

- Seller receives full share from the buyer in cash;
- The buyer pays minimum down payment, the cooperative pays seller balance of share; the buyer has less than a full share, but the value of the remaining shares has increased.
- if no buyer is available, the unit is rented.

V. Essential Criterion

DEVELOPMENT TEAM

Essential to the development of a cooperative is the necessity of employing a highly qualified, skilled development team that will not only anticipate problems and solve them, but also will reinforce credibility with the funding agencies. The development team could include:

Architect

General Contractor

Legal Counsel

Marketing and management consultants

Financial Processor

Mortgage Banker

Sponsor who would act as a catalyst, provide seed capital and provide interim management services.

MANAGEMENT

Zimmer (1981) feels that skilled professional management is essential to the success of any low and moderate income housing development whether it is a cooperative or rental. In the past the major stumbling block to the success of a cooperative has been the management --or the lack of it; training sessions are needed for the residents and board members until an understanding is reached on the operation of a cooperative corporation. A democratically run cooperative needs members who have expertise in financial management, home ownership and the cooperative lifestyle. Self management is usually not feasible in cooperatives that have over one hundred units; HUD requires professional management if they insure the project.

Several consulting agencies have developed management plans, such as TechniCo-op, Foundation for Cooperative Housing, and Cooperative Services, INc. An especially notable plan is Cooperative Housing; a handbook for effective operations, developed by the Midwest Association of Housing Cooperatives in Ann Arbor, Michigan.

STEPHENS HOUSE COOPERATIVE, MINNEAPOLIS, MINNESOTA

FHA INSURED

71 units - 80-85% Section 8 Assisted

Rental unit, HUD Foreclosure; Common Space - Consultants occupied rehabilitation, Realty Management Company.

Education process - Common Space.

Comments:

Since unit has become cooperative, noticeable changes in resident's attitude, i.e., better parental control of children, better upkeep of common areas (hallways, garbage areas, etc.) As more people understand cooperative concept, the more responsibility they take. The give and take of decision making process important to residents. Feels the resident control of environment, pride in ownership, involvement reason for change. Permanent residents contribute to stability of neighborhood.

Board has strict applicant screening policy; strict policy for personal payment if damage done to unit (for example, resident must pay for own broken window, as in single family home ownership)

Problem initially between market rate and assisted cooperators - resolved with understanding of problem.

(Marshall Scule, Resident Manager)

WHITTIER SCHOOL COOPERATIVE, MINNEAPOLIS, MINNESOTA

FHA INSURED INTERIM FINANCING - MHFA

45 Units - 100% Section 8

Total rehabilitation; adaptive reuse of school building.

Powderhorn Residents Group - Sponsoring group.

Educational Process - Powderhorn Res. Group

Board has strict screening policy.

Comments:

Residents like their feeling of home, their control in facility; the lack of landlord control.

(Kathleen Keenan, Resident Manager)

CLEARVIEW GARDENS - QUEENS, NEW YORK

FHA INSURED 213 (j)

1788 garden apartments - 41 Section 8

Clearview has been cooperative since 1951; limited equity; mostly older, retired residents who have had a change in circumstances and are receiving Section 8 subsidy; no one knowingly is Section 8 eligible when moving in and the amount of the downpayment or share price ($25,000 - $40,000) would prohibit assisted families buying in.

The units, including gas and electricity, have monthly charges ranging from $218.00 for one BR to $297.00 for 3 BR.

(Evelyn Eickler, Manager)

Woodridge Homes a/k/a North Andover Homes, North Andover, Massachusetts.

Sponsoring Agency - Massachusetts Archdiocese

State Housing Finance Agency - Mortgagor

Newly constructed, townhouse, rental with intent to convert.

230 units, 185 Section 8 assisted.

No problem in mixing income levels and large and small families.

MHFA is impressed with the cooperative's ability to keep the rate of increase on operating expenses considerably lower than in rental developments.

Northridge a/k/a Beverly Homes, Boston, Massachusetts.

Massachusetts State Housing Financing Agency

Sponsoring Agency - Massachusetts Archdiocese.

98 units - 25 market rate; 73 receiving assistance in the form of interest subsidy or assistance similar to Section 8, but State initiated.

Problems only with construction delays; feels important to have resident orientation and input in early stages.

The Wilder Foundation in St. Paul in response to the surrounding communities desire for home ownership instead of public housing in the redevelopment area, developed Wilder Square Cooperatives. The complex contains 43 cooperative townhouse units, 120 cooperative apartment units plus 136 rental apartments. The project received Section 236 and rent supplement funds. Wilder Square is extremely viable, is favorably received in the neighborhood and has low monthly charges ($209.00 for a townhouse unit). (Golden, 1980) Managed by Wilder Foundation.

Rolling Meadows, a 202 unit family cooperative located in Inver Grove Heights, Minnesota was developed in 1971 under Section 236. Ten percent of the occupants are market rate, the rest receive a rent subsidy. Monthly payments for a two BR unit are $284.00 - with assistance - $187.00. The cooperative is profesionally managed, Ruth Anderson, Manager.

YORKVILLE COOPERATIVE, FAIRFAX, VIRGINIA

FHA INSURED 221 (d) (3)

236 units - all Section 8 assisted.

Equity - Percent increase based on annual increase in Consumer Price Index; may start receiving equity after one year; reimbursed for improvements depreciated at 12% per year.

Comments:

Educational process extremely important for people to become aware of pitfalls and responsibilities of cooperative living. Before buying in, several meetings are conducted; board members receive ongoing training, which they pass on to other members.

Participation and control important in cooperative. Chance to voice opinion and to help establish rules and regulations important to residents.

(Jim Brown, Property Manager)

ISLAND WALK COOPERATIVE, RESTON, VIRGINIA

FHA INSURED 221 (d) (3)

102 Units, 2, 3, 4 BR, All Section 8 assisted

Originally constructed as rental; after seven years, defaulted. Resident initiated conversion; Multi Family Housing Services was consultant.

Educational process stressed and ongoing.

Comments:

Residents work very hard to care for property, have pride of ownership. Management encourages involvement and participation.

Problems:

Even though all residents are receiving Section 8 assistance, incomes range from $9,500 - $22,000; feels income range not compatible.

(Nancy Ware, Site Manager)

NASSAU GARDENS, NORWOOD, MASSACHUSETTS

FHA INSURED 213 (e)

204 units - 25% (35) Section 8

Tenant instigated conversion from rental; Techni Co-op Consultant and Management Agent.

Ongoing educational process

Townhomes and high rise structure.

Income range $10,000 - $40,000; no conflict, people understood cross section of incomes when purchasing share.

Equity accrual - original downpayment, plus improvements, plus C.P.I. increase, less subsidy, if any.

Comments:

Stable resident population; viable organization, carrying charges did not increase for 1981 attributed to fact that people maintain and decorate their own units - all work together to keep costs down. Feel if this were apartment unit, maintenance budget would be considerably higher. Average townhouse rental in area - $600 - at Nassau Gardens -- $430. Resident participation on board increasing.

(Ed McDonough, Project Manager)

ROSEMARY VILLAGE, SILVER SPRINGS, MARYLAND

FHA INSURED 221 (d) (3) REHABILITATION LOAN

416 units - 133 Section 8

Tenant sponsored conversion; occupied rehabilitation consultant - Multi-Family Housing Services.

Apartments and townhouse structure

Equity only on members contribution toward amortization of mortgage.

Extensive (6-8 week) education process on cooperative lifestyle before occupancy.

Comments:

Pride of ownership as evidenced by two less maintenance people since formation of cooperative (residents are same people as when unit was rented). Sense of community, sees active participation.

Problems:

Initial social problems resulting from income mix, now resolved.

(Maria Clark - Resident Manager)

HILL CENTRAL HOMES, NEW HAVEN, CONNECTICUT

FHA INSURED 221 (d) (4) Section 2318

73 units - 100% Section 8

Townhouse structure, 3 and 4 BR; new construction.

5-6 years in process, sponsoring group - Hill Ministerial Alliance;

Techni Co-op - consultant and managing agency.

Continuous educational program.

Comments:

Residents made aware of problems a totally assisted cooperative could have, feels people are honest in dealing with one another. They are aware of responsibility; help in upkeep of units and grounds; have developed pride in ownership. Sees a definite attitude change. Most residents come from sub-standard housing, now feel they have ownership, so more care and responsibility has developed.

A few residents respond as renters, but staff is working with them.

(Yvonne Walker, Property Manager)

SAVO ISLAND, BERKELY, CALIFORNIA

FHA INSURED 213

57 units - 100% Section 8, new construction; townhouses;

Sponsoring group - Savo Island Project Area Comm.

7-8 years in process.

Education program lacking; feels a necessity at onset so people understand concepts and responsibilities. Board needs economic training and immediate orientation. Plan to have educational sessions for all members.

Equity - After three years, departing members receive value of share plus six percent interest, plus share of improvement. Important to keep units attainable for low income residents.

Comments:

Training in cooperative concept needed; the more the residents understand, the more anxious they are to learn; some understanding is being reached, but many have tenant outlook, do not take control or responsibility. Have not yet realized they must work together for good of all.

Feels advantages of getting chance to elevate onself and assuming responsibilities will soon be obvious.

(Roberta Brown, Resident Manager)

GILL PARK COOPERATIVE, CHICAGO, ILLINOIS

FHA INSURED 221 (d) (3) MIR

260 units - 100% Section 8

Tenant initiated conversion; occupied rehabilitation

Services for Cooperative and Condominium Conversions, conversion and managing agent.

Education process - thirteen weeks, starting another 13 week process to keep it ongoing.

Threat of conversion to condominium with resulting 100% displacement, so residents and previous owner chose to co-operate.

Comments:

Income of residents ranges from \$2-\$10,000. Sees people reacting to control of home and environment by attending meetings and participating in the process and controlling their children. Building is well maintained. Floor captains take responsibility seriously. Sees as an advantage that people pay only costs and not the landlords share.

(Deborah Agusto, Manager)

VII. CONCLUSION

Many variables must be considered and weighed in the development of assisted cooperative housing. The housing need and housing availability in the proposed area must be determined; the knowledge of the concept of cooperative ownership must be ascertained and the desire judged of the potential residents to participate in this type of homeownership.

The twelve housing developments studied showed that, although desirable, equity accrual was not the important consideration in the feasibility of the projects; good housing, resident control of the living space and the environment, however were important to the participants as evidenced by the improvements in the care of the living units, behavior of the children, maintenance of the complex and participation in the process. The degree was influenced by the extent of the education and training received by the shareholders and the board of directors and by the type of management involved. This is not to say, however, that if the opportunity for equity accrual were present that it would not mean more enthusiasm and participation in this form of tenure; considering the structure of our society, it is a given.

The study showed that misconceptions and mistrust exist between the funding agencies (HUD and MHFA) and the sponsoring non-profit neighborhood groups; it indicated a lack of knowledge, and often an unrelenting and uncaring attitude on the part of all participants.

Lack of definite policy in dealing with cooperative housing applications is seen as a resolvable problem. Of greater concern is the question concerning the role of the Department of Housing and Urban Development--will they be more effectual in the development of housing cooperatives in a helping role rather than a controlling role?

PARTIALLY ANNOTATED BIBLIOGRAPHY

Abrams, Charles. 1964 Man's Struggle for Shelter in an Urbanizing World. Massachusette's Institute of Technology, Cambridge.

Andrews, Howard F., and Breslauer, Helen J. 1976 Cooperative Housing Project: An Overview of a Case Study, Methods and Findings. Research Paper No. 73, Center for Urban and Community Studies, University of Toronto

--- 1964 Reflections on the Housing Process: Implications From a Case Study of Cooperative Housing. Research Paper NO. 74, Center for Urban and Community Studies, University of Toronto

Reports on various aspects of the research on cooperative housing, the decision making process from inception of idea to occupancy. Discusses research methodology and findings concerning design, residential involvement and user satisfaction of the co-op process.

Bowly, Devereux, Jr. 1978 Poorhouse-Subsidized Housing in Chicago, 1895-1976.

Studies 1,273 buildings of subsidized multi-family housing; traces problems and faults of public housing. Discusses results of public housing becoming tenant owned cooperatives.

Bradford, Calvin. March, 1979 "Financing Home Ownership: the Federal role in Neighborhood Decline". Urban Affairs Quarterly

Brooke, Edward. January, 1980 "Low income housing may need a broader approach". Journal of Housing

Brown, Louise. 1980 "Cooperative Conversion: The Twin Cities Experience". Unpublished paper, Center for Urban and Regional Affairs, University of Minnesota.

Study of the number and types of conversions in the Hennepin and Ramsy counties of Minnesota.

Building the American City. 1969 "Cooperative Housing" In the U.S. National Commission on Urban Problems. Washington, D.C. U.S. Government Printing Office.

Clurman, David and Edna Hebard. 1970 Condominiums and Cooperatives. New York: Wiley-Interscience.

A complete introduction to cooperatives and their uses, also discusses legal and financial aspects and provides a checklist for purchases.

"Cooperative Housing Bulletin". October, 1980 National Association of Housing Cooperatives, Washington, D.C.

A monthly bulletin that provides update on legislation, grants, court decisions, conferences and activities that effect cooperative housing.

Cooperative Living Centers 1980 Information handbook Richfield, Minnesota.

Cooperative Housing Information Kit North American Student Cooperative Organization, Ann Arbor, Michigan

Booklet that defines cooperatives, explains the different types and financing mechanisms available.

"Co-op Ownership Filters Down" January 14, 1980 Business Week

Discusses some advantages and disadvantages of extending home ownership opportunities to low income families by the formation of cooperatives.

Dockson, Robert and Rep. Fortney Stark, Jr. and State Senator Milton Marks. February, 1980 "Cooperative housing-three perspectives on ways to make housing more affordable". Journal of Housing.

Eden, Ernie. March, 1978 "Cooperative Housing-A Viable Alternative to the Rental Market". HUD Challenge

Explains the advantages of cooperative housing over renting; cites case studies and means in which local and state governments could support development of low income cooperatives.

--- Spring, 1978 "Your City Can Help". The New Harbinger Ann Arbor, Michigan

--- August 8, 1978 Correspondence to HUD National Association of Housing Cooperatives, Washington, D. C.

States criteria for the conversion of HUD held properties to cooperatives.

Eribes, Richard A. October 11, 1979 "The Housing Puzzle: Do the Pieces Fit?" Public Administration Review

Reviews six books on housing; about Jonathon Zimmers, From Rental to Cooperative, Eribes reports that it is an investigation into the impact that organizational change has upon behavior; does not see cooperatives as a panacea for all problems associated with public housing; suggests that the management function may be more important than homeownership.

Fairfax County Redevelopment and Housing Authority, 1979-1980 Annual Report. Fairfax County, Virginia.

Fish, Gertrude. 1979 The Story of Housing. McMillan Publishing Company, New York

The book presents an intricate portroyal of housings changing nature; presents many different writers' points of view on social economic and political factors affecting housing in the U. S.

Fuerst, J.S. and Daniel Fuerst. June, 1979 "The Promise of Co-op Housing." Planning Journal Chicago, Illinois

Discusses advantages, disadvantages, problems encountered in assisted cooperatives; cites case studies of Chicago area coops.

Greater Metropolitan Minnesota Housing Corporation-Cooperative Study Minneapolis, 1975.

Grigsby, William G. and Louis Rosenberg. 1975 Urban Housing Policy. APS Publications Inc., New York, NY

Hammond, Ruth. November 1, 1980 "Old School Will Soon be Full of Families." Minneapolis Tribune.

Housing St. Paul 1980-1990 Comprehensive Plan

Jordan, George. August 16, 1979 "Cooperatives may offer alternatives for renters". Minneapolis Star

Kohl, Stewart Winter, 1979 "Wide Open". Co-op, the Harbinger of Economic Democracy. Ann Arbor, Michigan.

Discusses powers and objectives of the co-op bank.

Kolodny, Robert. 1980 "The Emergence of Self Help in the USA as a Housing Strategy for the Urban Poor." Habitat International Vol. V, No. 1 and 2. Pergamom Press, Great Britain.

Kostouros, John. November 1, 1980 "Cities eye limited equity co-ops for affordable housing." Minneapolis Tribune

--- February 7, 1981 "Home prices trail inflation in some parts of area." Minneapolis Tribune

Laidlow, Alex. Spring, 1978 "Efficiency vs Democracy." The New Harbinger, Ann Arbor, Michigan

--- May, June 1979 Co-op, the Harbinger of Economic Democracy, Ann Arbor, Michigan.

Lamb, Margaret. March-April, 1979 "The New Wave and the Bank." Co-Op , the Harbinger of Economic Democracy.

An explanation of the advantages and opportunities available with the formation of the co-op bank.

"Legislating to restrain co-ops and condos." February 18, 1980 Business Week

Regulations passed or considered to be passed in cities where frequent conversions have occurred.

Liblit, Jerome, ed. 1964 Housing- The Cooperative Way New York: Twayne Publishers.

A collection of essays that acquaint the reader with the history and advantages of cooperative housing.

Lundberg, William T. 1979 Consumer Owned: Sweden's Cooperative Democracy. Consumers Cooperative Publications Assoc., Palo Alto, California.

A study of the Swedish cooperative movement.

"Managing a successful community association." 1976 The Urban Land Institute. Washington, D.C.

Guide to help committee chairmen, board members, property managers-all persons involved in the association work to fill the management experience gap. Helps determine association goals and suggests methods to achieve those goals.

Massachusettes Housing financing Agency Processing Handbook, April, 1980.

Mayer, Martin. 1978 The Builders W. W. Norton and Co., New York.

Discusses houses, financing techniques, inflation, government policy--how homes get built, bought and paid for. A different perspective of the housing dilemma written in an entertaining style.

Midwest Association of Housing Cooperatives and Organization for Applied Science in Society. Cooperative Housing-A Handbook for Effective Operations. 1977 Ann Arbor, Michigan: MAHC

A most important reference for anyone seriously considering the development of a cooperative. Details the role of staff and board, outlines key issues, and includes several samples of important documents.

Nassau Gardens Cooperative Documents 1979 Norwood, Massachusettes.

National Consumer Cooperative Bank 1980 Approved Policies Washington, D.C.

"New Co-ops seen as part of trend to cut home costs." February 23, 1980 Minneapolis Tribune

Phares, Donald, editor. 1977 A Decent Home and Environment: Housing Urban America Ballinger Publishing Co. Cambridge, Mass.

Six papers that provide an overview of where we stand concerning the objectives set forth in the 1949 Housing Act; deals with the successes, failures and emerging issues we must face concerning public and private housing, the environment, policy, support of financial institutions, redlining and the process of neighborhood transition.

Rohan, Patrick J. and Melvin Reskin. 1967 Cooperative Housing Law and Practice Forms. Albany, New York: M. Bender

Soloway, Jennifer. November 1979 Condos, Co-ops and Conversions: A Guide on Rental Conversion for Local Officials. State of California, Office of Planning and Research, Sacramento.

Paper attempts to identify problems associated with conversions and to assist local officials. It discusses recent conversions and how they relate to the California housing shortage. It also describes local, state and Federal regulations.

Stanfield, Rochelle. February 17, 1979 "Caught in the squeeze of the rental housing market." National Journal

The poor are suffering most from the shortage of rental housing caused by the increased costs and resulting conversions and disinvestment.

--- May 17, 1980 "A new chance for co-ops." National Journal

Pros and cons of co-op bank discussed.

Starr, Roger. 1977 America's Housing Challenge Hill and Wang New York.

Housing in an industrial society regarded in social, utility and shelter aspects and how perception affects formulation of national policy. Looks at cost, form of ownership, types and costs of subsidy.

Sternlieb, George, and Robert Burchnell. 1978 Multi-Family Housing Demand: 1975-2000. Joint Economic Committee. U.S. Government Printing Office, Washington, D.C.

Stokes, Bruce. 1978 Local Responses to Global Problems: A Key To Meeting Basic Human Needs. Worldwatch Paper 17.

Explores self help concept on global level for housing, food production, health care and other world problems. Emphasizes need for mutual aid among communities and nations.

Struyk, Raymond J. Fall 1977 "The need for local flexibility in U. S. housing policy". Policy Analysis

Struyk, R., and S. Marshall and L. Ozanne. 1978 Housing Policies for the Urban Poor. Urban Institute, Washington, D.C.

Compares Section 8, income maintenance and public housing.

"The Co-op Bank: Urban Policy Sleeper." May 17, 1980 National Journal.

Thornwaite, Fred. August 2, 1975 Presentation given to Consumer Cooperative Alliance, Ann Arbor, Michigan.

Torres, James F. May, June, 1979 "Up from Poverty". Co-Op, the Harbinger of Economic Democracy. Ann Arbor, Michigan.

Tremblay, K. Jr., Dillman, D. and Dillman J.; January, 1981 "Acceptable Housing Alternatives." HUD Challenge

Study of residents in Washington State shows that single family home ownership is still the overwhelming choice.

U. S. Department of Housing and Urban Development. 1981 Section 510 Multi-Family Homeownership Conversion Demonstration Executive Summary.

--- The Conversion of Rental Housing to Condominiums and Co-operatives. June, 1980 Division of Policy Studies, Washington, D.C.

--- Lower Income Housing Assistance Programs (Section 8) "Nation-wide Evaluation of the Existing Program". November, 1978 Drury, Lee, Springer, Yap. Office of Policy Development Research.

--- Programs of HUD, May, 1978 Washington, D.C. DHUD

--- HUD Handbooks: 4371.02; 4371.03; 4550.01; 4550.02; 4550.03; 4550.04; 4550.05; 4550.06.

Voorhis, Jerry. 1975 Cooperative Enterprise The Interstate Printers and Publishers, Inc. Danville, Illinois.

Weaver, Robert. April, 1980 "The Fair Housing Amendment: Opportunity to Fulfill a Promise. HUD Challenge

Willcox, Roger. July, 1977 "Community Sponsorship of Housing Cooperatives." Techni-Co-op. Stamford, Conn.

--- March, 1978 "Housing Design Options: Physical and Social Engineering. Cooperatives and Condominiums; a presentation."

--- Winter, 1979 "Saving Older Neighborhoods." The New Harbinger and Cooperative Housing Journal. Double issue. Ann Arbor, Mich.

--- 1979 "Conversion of HUD Owned Multi-Family Developments to Cooperatives--A Tenant's Handbook." National Association of Housing Cooperatives, Washington, D.C.

---. January 21, 1981 correspondence

Zimmer, Jonathon. 1977 From Rental to Cooperative: Improving Low and Moderate Income Housing. Sage Publications, Beverly Hills, California.

A study documenting and detailing some of the claims of social benefits made from the conversion of public housing to cooperatives.

RESOURCE PERSONS

Agusto, Deborah. Manager, Gill Park Cooperatives, Chicago, Ill. Telephone conversation, January, 1981.

Anderson, Ruth. Manager, Rolling Meadows Cooperative, St. Paul, Mn. November 12, 1980

Ballard, James. Foundation for Cooperative Housing, Washington, D.C. Telephone conversation, January 20, 1981

Birkeland, Celeste. Powderhorn Residents Group, Minneapolis, Mn. December 5, 1980

Brown, James, Property Manager, Multi-Family Housing Services, Maryland. Telephone conversation, January, 1981

Brown, Roberta. Resident manager, Savo Island Cooperatives, Berkeley, California. Telephone conversation, January, 1981

Buenger, John. HUD-Minneapolis, St. Paul Area Office. January, 1981

Caan, Jack. West Bank Community Development Corporation. December 29, 1980.

Casey, Candace. Neighborhood Improvement Corporation, November 20, 1980

Catin, Lee. San Francisco Redevelopment Authority. Telephone conversation, January 26, 1981

Clark, Maria. Manager, Rosemary Village Cooperative, Silver Springs, Maryland. Telephone conversation, January, 1981

Cooper, Peter. Minneapolis attorney, December 10, 1980

Dolbeare, Cushing, Ms. National Low Income Housing Coalition, Washington, D. C. Telephone conversation, January 20, 1981

Eden, Ernie. Cooperative Developer, Atlanta, Georgia. Telephone conversation, February, 1981

Eichler, Evelyn. Manager, Clearview Gardens Cooperative, Queens, New York. Telephone conversation, January, 1981

Ellerbee, Tom. The Cooperative Foundation, St. Paul, Minnesota. Telephone conversation, February, 1981

Errgio, Joe. Community Development Corporation, Archdiocese, St. Paul, Minnesota. November 25, 1980

Ewing, Curt. HUD-Minneapolis, St. Paul Area Office. December, 1980, January, 1981

Ferguson, Francie. North American Student Cooperative Organization, Ann Arbor, Michigan. November 25, 1980

Fitzgibbons, Tom. Midwest Federal Savings and Loan, Minneapolis, Minnesota. January, 26, 1981

Fredericks, Lou Ann. Executive Director, Arlington (Va) Housing Corporation. Telephone conversation, February 4, 1981

Freeman, Orville. HUD-Minneapolis, St. Paul Area Office. November, 1980-February, 1981. Several conversations.

Gabler, Joseph. HUD-Minneapolis, St. Paul Area Office. December 22, 1980

Golden, Jan. Housing Administrator, Wilder Foundation, St. Paul, Minnesota. November 12, 1980

Goldman, Howard. HUD-Minneapolis, St. Paul Area Office, January 26, 1981

Gossett, Damion. Minneapolis Housing Authority. Telephone conversation January, 5, 1981

Grossman, Barbara. Public Housing Agency, St. Paul, Minnesota Telephone conversation, February 5, 1981

Hanson, Dick. Cooperative Living Centers, Richfield, Minnesota. Telephone conversation, December, 1980

Ho, Diane. Realty Management Company, Minneapolis Minnesota. Telephone conversation, February, 1981

Jenkins, Jack. Minnesota Housing Finance Agency, St. Paul, Minnesota. December 3, 1980

Jones, Betty. HUD-Minneapolis, St. Paul Area Office. December 11, 1980

Keenan, Kathleen. Manager, Whitter Cooperative, Minneapolis, Minnesota. January, 1981

Locke, Debby. Midwest Association of Housing Cooperatives, Ann Arbor, Michigan. Telephone conversation, February 4, 1981

Mead, Dore. Housing Consultant, Minneapolis, Minnesota. December 2, 1980 and December 17, 1980

Mortimor, Harold. Developer, Rapid City, South Dakota. Telephone conversation, January 21, 1981.

McDonough, Ed. Manager, Nassau Gardens Cooperative, Norwood, Massachusetts. Telephone conversation, January, 1981

Philips, Sybil. Director, 510 Demonstration Program, HUD, Washington, D.C. Telephone conversation, February 6, 1981

Sacks, Martha. Cooperative Services, Inc., Detroit, Michigan. Telephone conversation, February 6, 1981

Scule, Marshall. Manager, Stevens Avenue Cooperative, Minneapolis, Minnesota. January, 1981

Scull, Jon. Minneapolis attorney. December 2, 1980

Soderberg, Tom. Contractor, St. Paul, Minnesota. December 11, 1980

Spicer, Gary. Manager, Commonwealth Terrace Cooperatives, St. Paul, Minnesota. Telephone conversation, November, 1980

Stegman, Michael. Professor, Department of City and Regional Planning, University of North Carolina. Telephone conversation February 6, 1981

Vavolus, Tony. Cooperative Living Centers, Richfield, Minnesota. January, 1981

Walker, Yvonne. Property manager, Hill Central Homes, New Haven, Conneticut. Telephone converaation, January, 1981

Ware, Nancy. Site Manager, Island Walk Cooperatives, Reston, Virginia. Telephone conversation, January, 1981

Warner, Charlie. Common Space, Minneapolis, Minnesota. November 19, 1980

Waterhouse, Ann. Regional Director, Co-op Bank, Minneapolis, Minnesota January 20, 1981

Webdale, Walter. Director, Housing and Redevelopment Authority, Fairfax County, Virginia. Telephone conversation, February 4, 1981

Willcox, Roger. Techni-Co-op, Stamford, Conneticut. Telephone conversation, January, 21, 1981

Yacker, Julius. Chicago, Illinois, attorney. December 17, 1980

Zimmer, Jonathon. Action Housing, Pittsburgh, Pennsylvania. Telephone conversation, January, 19, 1981